

Message Text

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ACTION ARA-20

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 3345

INFO AMCONSUL MEDELLIN

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TAGS EAID, ECON, EFIN

SUBJ: ECONOMIC PROGRAM OF THE PRES-ELECT

1. PRES-ELECT LOPEZ, DURING A MEETING WITH KEY LABOR UNION OFFICIALS ON JUNE 14, OUTLINED HIS VIEWS ON THE CAUSES OF INFLATION AND THE GEN DIRECTION HIS ADMIN IS LIKELY TO FOLLOW TO ALLEVIATE THE PROBLEM. HE POINTED OUT THAT INFLATION IN COLOMBIA HAS BOTH AN ECONOMIC AND PSYCHOLOGICAL DIMENSION. ON THE ECONOMIC SIDE, HE IMPLIED THAT THE FAILURE OF THE PASTRANA ADMIN TO IMPLEMENT RATIONAL FISCAL &

MONETARY POLICIES WERE THE MAJOR CAUSES OF INFLATION. LOPEZ OBSERVED THAT AN EXPECTATION OF CONTINUED INFLATION IS NOW BUILT INTO COLOMBIAN ECONOMIC THINKING AND THAT HIS ADMIN WOULD HAVE TO WORK HARD TO COUNTERACT IT. HE STATED THAT IN GENERAL HIS ADMIN WILL FIGHT INFLATION BY: A. REDUCING PUBLIC EXPENDITURES B. ESTABLISHING ADVISORY COMMISSIONS REPRESENTING LABOR, MANAGEMENT AND GOVT TO ANALYZE PROBLEMS AND MAKE JOINT RECOMMENDATIONS ON MEASURES TO BE TAKEN AND C. INITIATING AN INCOME AND SALARIES

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POLICY DESIGNED TO INCREASE THE REAL INCOME OF THE WORKERS WHICH

HAS BEEN ERODED BY INFLATION.

2. BLUEPRINT OF INFLATION: ACCORDING TO LOPEZ, GOVT EXPENDITURES ARE GROWING MORE RAPIDLY THAN THE ECONOMY AS A WHOLE WHILE AT THE SAME TIME GOVT REVENUES IN REAL TERMS ARE DECLINING. GOVT REVENUES ARE DECLINING BECAUSE OF TAX AVOIDANCE AND EVASION. THIS COUPLED WITH THE GROWTH OF INTERNATIONAL RESERVES, FOREIGN BORROWING AND GOOD EXPORT PERFORMANCE LED TO RAPID MONEY SUPPLY EXPANSION AND INFLATION.

3. INCOME AND SALARIES POLICY: ACCORDING TO LOPEZ, THE RATE OF INFLATION HAS BEEN INCREASING FASTER THAN SALARY ADJUSTMENTS FOR WORKERS AND THUS IN REAL TERMS INCOMES OF THE LOWER ECONOMIC GROUPS HAVE BEEN FALLING. ON THE OTHER HAND THE RETURN TO CAPITAL HAS BEEN PROTECTED THROUGH REGULAR PRICE INCREASES OF THE PRODUCTS SOLD AND INVESTMENT IN UPACS WHICH OFFER A GUARANTEED POSITIVE REAL INTEREST RATE. LOPEZ COULD NOT GUARANTEE A REDUCTION IN PRICES BUT HOPED THAT MONEY WAGES WILL BE ABLE TO GROW AT A FASTER RATE SO THAT PURCHASING POWER OF THE WORKER WOULD BE ABLE TO CATCH UP WITH INFLATION.

4. PRICE CONTROLS: LOPEZ BELIEVES THAT PASTRANA'S PRICE CONTROL POLICIES CAN NOT BE CONTINUED. SOME MODIFICATIONS WILL BE NECESSARY, FOR EXAMPLE, IN THE TRANSPORTATION, ELECTRICITY AND AGRICULTURAL SUBSIDIES. TO DO AWAY WITH SUBSIDIES WILL MEAN INITIALLY HIGHER DOMESTIC PRICES IN THESE AREAS BUT SUCH SUBSIDY REDUCTIONS ARE REQUIRED FOR LONGER TERM PRICE STABILITY.

5. BEGIN COMMENT: THERE IS GROWING CONCERN THAT IT WOULD BE DIFFICULT FOR LOPEZ TO ACCOMPLISH SUBSTANTIAL REDUCTIONS IN GOVT EXPENDITURES WITHOUT ADVERSELY AFFECTING THE RATE OF ECONOMIC GROWTH. HE PROBABLY WOULD FIND IT MORE BENEFICIAL FROM AN ECONOMIC POINT OF VIEW TO CONCENTRATE ON INCREASED TAX COLLECTIONS. IT REMAINS TO BE SEEN HOW LOPEZ WILL BE ABLE TO REDUCE THE EXPECTATION OF CONTINUED INFLATION WHILE AT THE SAME TIME PURSUING HIS PROPOSED INCOME AND SALARIES POLICY. THIS APPARENT CONTRADICTION IN LOPEZ'S STRATEGY CAN BE RATIONALIZED IF ONE ANTICIPATES THAT THE INCREASED WAGE INCREASES COME FROM PROFITS RATHER THAN PRICE INCREASES. VAKY

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